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of the following items that is not deducted from common equity tier 1 capital pursuant to § 3.22(d):

- (i) MSAs; and
- (ii) DTAs arising from temporary differences that the national bank or Federal savings association could not realize through net operating loss carrybacks.

(5) A national bank or Federal savings association must assign a 100 percent risk weight to all assets not specifically assigned a different risk weight under this subpart and that are not deducted from tier 1 or tier 2 capital pursuant to § 3.22.

(6) Notwithstanding the requirements of this section, a national bank or Federal savings association may assign an asset that is not included in one of the categories provided in this section to the risk weight category applicable under the capital rules applicable to bank holding companies and savings and loan holding companies at 12 CFR part 217, provided that all of the following conditions apply:

- (i) The national bank or Federal savings association is not authorized to hold the asset under applicable law other than debt previously contracted or similar authority; and
- (ii) The risks associated with the asset are substantially similar to the risks of assets that are otherwise assigned to a risk weight category of less than 100 percent under this subpart.

§ 3.33 Off-balance sheet exposures.

(a) *General.* (1) A national bank or Federal savings association must calculate the exposure amount of an off-balance sheet exposure using the credit conversion factors (CCFs) in paragraph (b) of this section.

(2) Where a national bank or Federal savings association commits to provide a commitment, the national bank or Federal savings association may apply the lower of the two applicable CCFs.

(3) Where a national bank or Federal savings association provides a commitment structured as a syndication or participation, the national bank or Federal savings association is only required to calculate the exposure amount for its pro rata share of the commitment.

(4) Where a national bank or Federal savings association provides a commitment, enters into a repurchase agreement, or provides a credit-enhancing representation and warranty, and such commitment, repurchase agreement, or credit-enhancing representation and warranty is not a securitization exposure, the exposure amount shall be no greater than the maximum contractual amount of the commitment, repurchase agreement, or credit-enhancing representation and warranty, as applicable.

(b) *Credit conversion factors*—(1) *Zero percent CCF.* A national bank or Federal savings association must apply a zero percent CCF to the unused portion of a commitment that is unconditionally cancelable by the national bank or Federal savings association.

(2) *20 percent CCF.* A national bank or Federal savings association must apply a 20 percent CCF to the amount of:

- (i) Commitments with an original maturity of one year or less that are not unconditionally cancelable by the national bank or Federal savings association; and
- (ii) Self-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less.

(3) *50 percent CCF.* A national bank or Federal savings association must apply a 50 percent CCF to the amount of:

- (i) Commitments with an original maturity of more than one year that are not unconditionally cancelable by the national bank or Federal savings association; and
- (ii) Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit.

(4) *100 percent CCF.* A national bank or Federal savings association must apply a 100 percent CCF to the amount of the following off-balance-sheet items and other similar transactions:

- (i) Guarantees;
- (ii) Repurchase agreements (the off-balance sheet component of which equals the sum of the current fair values of all positions the national bank or Federal savings association has sold subject to repurchase);

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(iii) Credit-enhancing representations and warranties that are not securitization exposures;

(iv) Off-balance sheet securities lending transactions (the off-balance sheet component of which equals the sum of the current fair values of all positions the national bank or Federal savings association has lent under the transaction);

(v) Off-balance sheet securities borrowing transactions (the off-balance sheet component of which equals the sum of the current fair values of all non-cash positions the national bank or Federal savings association has posted as collateral under the transaction);

(vi) Financial standby letters of credit; and

(vii) Forward agreements.

§ 3.34 OTC derivative contracts.

(a) *Exposure amount*—(1) *Single OTC derivative contract*. Except as modified by paragraph (b) of this section, the exposure amount for a single OTC derivative contract that is not subject to a qualifying master netting agreement is equal to the sum of the national bank's or Federal savings association's current credit exposure and potential future credit exposure (PFE) on the OTC derivative contract.

(i) *Current credit exposure*. The current credit exposure for a single OTC derivative contract is the greater of

the mark-to-fair value of the OTC derivative contract or zero.

(ii) *PFE*. (A) The PFE for a single OTC derivative contract, including an OTC derivative contract with a negative mark-to-fair value, is calculated by multiplying the notional principal amount of the OTC derivative contract by the appropriate conversion factor in Table 1 to § 3.34.

(B) For purposes of calculating either the PFE under this paragraph (a) or the gross PFE under paragraph (a)(2) of this section for exchange rate contracts and other similar contracts in which the notional principal amount is equivalent to the cash flows, notional principal amount is the net receipts to each party falling due on each value date in each currency.

(C) For an OTC derivative contract that does not fall within one of the specified categories in Table 1 to § 3.34, the PFE must be calculated using the appropriate "other" conversion factor.

(D) A national bank or Federal savings association must use an OTC derivative contract's effective notional principal amount (that is, the apparent or stated notional principal amount multiplied by any multiplier in the OTC derivative contract) rather than the apparent or stated notional principal amount in calculating PFE.

(E) The PFE of the protection provider of a credit derivative is capped at the net present value of the amount of unpaid premiums.

TABLE 1 TO § 3.34—CONVERSION FACTOR MATRIX FOR DERIVATIVE CONTRACTS ¹

| Remaining maturity ² | Interest rate | Foreign exchange rate and gold | Credit (investment grade reference asset) ³ | Credit (non-investment-grade reference asset) | Equity | Precious metals (except gold) | Other |
|--|---------------|--------------------------------|--|---|--------|-------------------------------|-------|
| One year or less | 0.00 | 0.01 | 0.05 | 0.10 | 0.06 | 0.07 | 0.10 |
| Greater than one year and less than or equal to five years | 0.005 | 0.05 | 0.05 | 0.10 | 0.08 | 0.07 | 0.12 |
| Greater than five years | 0.015 | 0.075 | 0.05 | 0.10 | 0.10 | 0.08 | 0.15 |

¹ For a derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract.

² For an OTC derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the fair value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005.

³ A national bank or Federal savings association must use the column labeled "Credit (investment-grade reference asset)" for a credit derivative whose reference asset is an outstanding unsecured long-term debt security without credit enhancement that is investment grade. A national bank or Federal savings association must use the column labeled "Credit (non-investment-grade reference asset)" for all other credit derivatives.